

**WAVERLY-SHELL ROCK
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16-17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 18
Statement of Revenues, Expenditures and Changes in Fund Balances	E 19-20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 21
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 22
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 23
Statement of Cash Flows	I 24
Fiduciary Funds Financial Statements:	
Statement of Fiduciary Net Assets	J 25
Statement of Changes in Fiduciary Net Assets	K 26
Notes to Financial Statements	27-36
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	37
Note to Required Supplementary Information - Budgetary Reporting	38
Schedule of Funding Progress for the Retiree Health Plan	39
Other Supplementary Information:	<u>Schedule</u>
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	1 40-43
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets - Private Purpose Trusts	2 44-46
Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trusts	3 47
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4 48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5 49
Schedule of Expenditures of Federal Awards	6 50
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	51-52
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	53-54
Schedule of Findings and Questioned Costs	55-59

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Cheryl Elsbury-Reiher	President	2013
David Sage	Vice President	2011
John Englin		2011
Nancy Luebbers		2013
Dennis Epley		2011

School Officials

Jere Vyverberg	Superintendent
Dennis Stufflebeam	District Secretary
Linda Hildreth	District Treasurer

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants

- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation

- Year Round Tax Planning

- Payroll & Sales Tax Preparation

- I.R.S. Representation

- Monthly/Quarterly Write-Up

- Data Processing Services

- Payroll Preparation

- Financial Statement Preparation

- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience

- Evenings & Saturdays Available by Appointment

- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
Waverly-Shell Rock Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Waverly-Shell Rock Community School District, Waverly, Iowa as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Waverly-Shell Rock Community School District at June 30, 2011 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

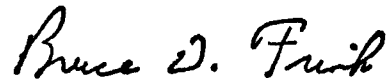
In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2012 on our consideration of Waverly-Shell Rock Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 37 through 39 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

202 Central Avenue East
P.O. Box 241
Clarion, IA 50525

Phone: (515) 532-6659
Fax: (515) 532-3677
bruce@frinkcpa.com

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waverly-Shell Rock Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Bruce D. Frink
Certified Public Accountant

March 28, 2012

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Waverly-Shell Rock Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Waverly-Shell Rock Community School District is building a new 5-8 middle school due to the flood of June 2008 totally ruining Washington Irving School (grades 5 & 6). Prior to the flood, it was anticipated the school would build a new 7th and 8th grade building because the 7th and 8th grade building is the oldest school building in the district; it was built in 1926.
- The District had revenues of \$18,204,886 and \$19,695,354 was spent during the fiscal year. The District's financial solvency ratio as of June 30, 2011 was -15.7%. The financial solvency ratio as of June 30, 2010 was -9.6%.
- The District experienced a decrease in certified enrollment. The October 2009 enrollment was 1894.68, while the October 1, 2010 enrollment was 1888.5.
- The number of net open-enrolled students increased from 69 in fiscal year 2010 to 72 in fiscal year 2011.
- The District's alternative high school is continuing to become a regional alternative high school with a growing number of students from other districts enrolling in the program. This is having a positive financial impact on the District. The District took in over \$75,752 in tuition from neighboring districts that sent students to Waverly-Shell Rock's alternative high school.
- The District continued to share a guidance counselor with the Janesville Consolidated School District. This has allowed for some cost savings.
- The State of Iowa deducted a total of \$818,381 during fiscal year 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Waverly-Shell Rock Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Waverly-Shell Rock Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Waverly-Shell Rock Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress from the Retiree Health Plan.

Other Supplementary Information provides detailed information about the Student Activity and fiduciary funds as well as a multiyear comparison of revenues and expenditures. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

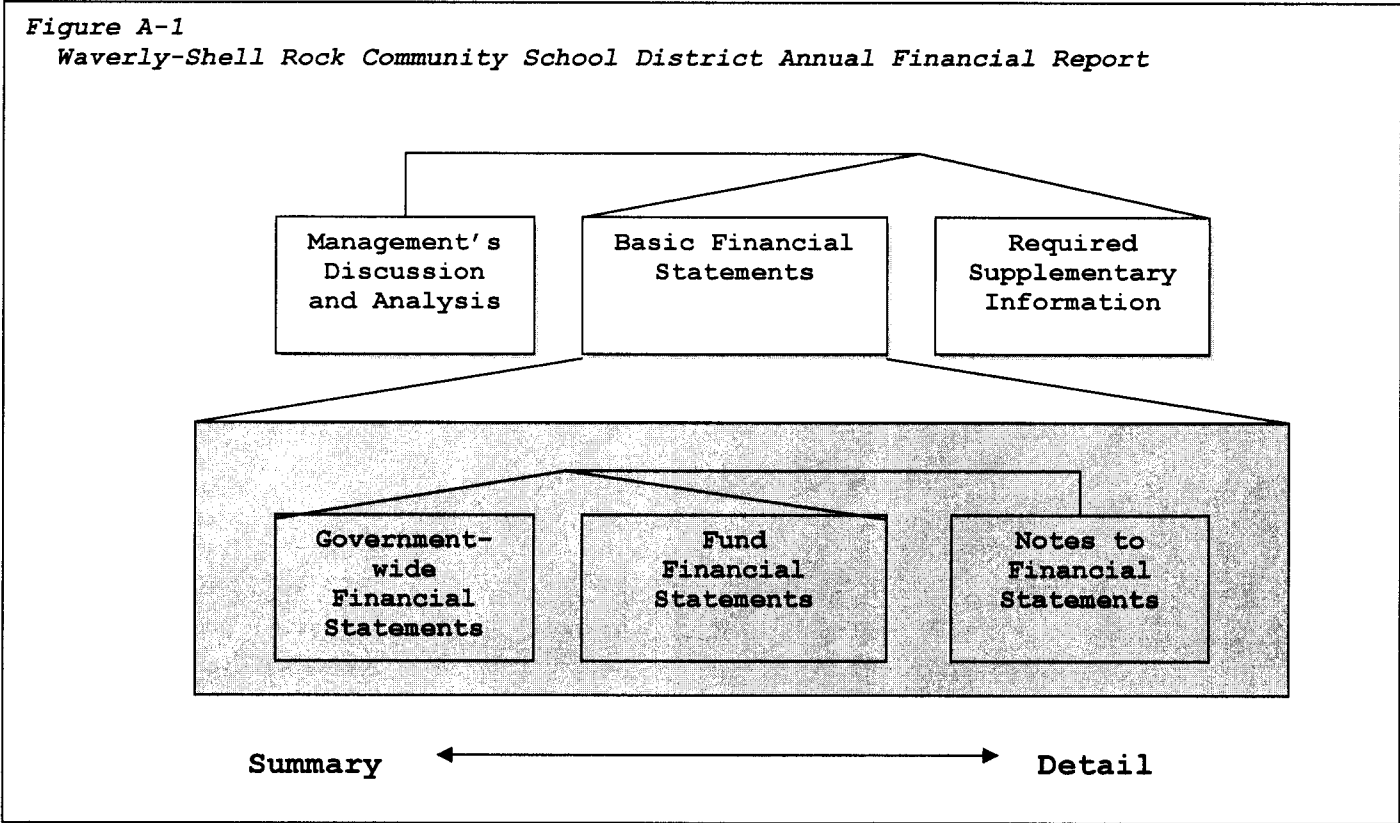


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and internal services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The Internal Service Fund is used only to collect, hold and pay out money for the District's employee group health insurance plan. Revenues come from the Board of Education's allocation of funds for the health insurance employee benefit, payroll deductions from employee's checks and checks brought in by retiree's that continue to stay on the plan.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds and Agency Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - These are funds through which the District administers and account for certain federal and/or state grants on behalf of other District's and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to the year ended June 30, 2010.

<p align="center">Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)</p>							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current assets	\$ 15,003	23,798	20	32	15,023	23,830	-36.96%
Capital assets	36,254	22,019	29	29	36,283	22,048	39.23%
Total assets	<u>51,257</u>	<u>45,817</u>	<u>49</u>	<u>61</u>	<u>51,306</u>	<u>45,878</u>	<u>10.58%</u>
Current liabilities	10,912	10,394	39	44	10,951	10,438	4.68%
Non-current liabilities	20,058	21,145	-	-	20,058	21,145	-5.42%
Total liabilities	<u>30,970</u>	<u>31,539</u>	<u>39</u>	<u>44</u>	<u>31,009</u>	<u>31,583</u>	<u>-1.82%</u>
Net Assets							
Invested in capital assets, net of related debt	16,449	1,239	29	29	16,478	1,268	92.30%
Restricted	6,273	14,208	-	-	6,273	14,208	44.15%
Unrestricted	(2,435)	(1,169)	(19)	(12)	(2,454)	(1,181)	-107.79%
Total net assets	<u>\$ 20,287</u>	<u>14,278</u>	<u>10</u>	<u>17</u>	<u>20,297</u>	<u>14,295</u>	<u>41.99%</u>

The District's combined net assets increased 42% over the prior year. The largest portion of the District's net assets is capital assets and construction projects not yet completed.

Invested in capital assets (cost of land, buildings and equipment less related debt) increased primarily due to construction of the new 5-8 building.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased over the prior year due to these funds being used for construction.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenant, enabling legislation or other legal requirements decreased 108%. This decrease in unrestricted net assets was primarily a result of the District's decrease in the General Fund.

The capital assets and restricted funds amounts will change greatly in fiscal year 2011 as the new school building is completed. Funds in the Capital Projects Fund will be shifted to capital assets.

Figure A-4 show the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
2011	2010	2011	2010	2011	2010	2010-2011	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 1,236	1,156	589	604	1,825	1,760	3.69%
Operating grants, contributions and interest	4,331	4,808	375	313	4,706	5,121	-8.10%
Capital grants, contributions and interest	7,144	3,161	-	-	7,144	3,161	126.00%
General revenues:							
Property tax	7,180	5,989	-	-	7,180	5,989	19.89%
Income surtax	767	720	-	-	767	720	6.53%
Statewide sales, services and use tax	1,197	1,132	-	-	1,197	1,132	5.74%
Unrestricted state grants	7,487	6,357	-	-	7,487	6,357	17.78%
Unrestricted investment earnings	1	7	-	-	1	7	-85.71%
Other	119	257	-	-	119	257	-53.70%
Total revenues	<u>29,462</u>	<u>23,587</u>	<u>964</u>	<u>917</u>	<u>30,426</u>	<u>24,504</u>	<u>24.17%</u>
Program expenses:							
Governmental activities:							
Instruction	15,123	13,576	-	-	15,123	13,576	11.40%
Support services	5,030	4,772	-	-	5,030	4,772	5.41%
Non-instructional programs	-	-	909	1,058	909	1,058	-14.08%
Other expenses	3,301	1,964	-	-	3,301	1,964	68.08%
Total expenses	<u>23,454</u>	<u>20,312</u>	<u>909</u>	<u>1,058</u>	<u>24,363</u>	<u>21,370</u>	<u>14.01%</u>
Change in net assets	<u>\$ 6,008</u>	<u>3,275</u>	<u>55</u>	<u>(141)</u>	<u>6,063</u>	<u>3,134</u>	<u>93.46%</u>

Property tax and unrestricted state grants account for 48% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 83% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$29,461,661 and expenses were \$23,453,627 for the year ended June 30, 2011. Revenues from governmental activities were \$6,008,034 greater than the expenditures for governmental activities.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenditures, for the year ending June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
Instruction	\$ 15,123	13,576	11.40%	8,649	10,310	-16.11%
Support services	5,030	4,772	5.41%	4,570	6,478	-29.45%
Other expenses	3,301	1,964	68.08%	(2,032)	594	-442.09%
Totals	\$ 23,454	20,312	15.47%	11,187	17,382	-35.64%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$1,236,222.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,526,134.
- The net cost of governmental activities was financed with \$7,179,135 in property tax and \$7,486,753 in state foundation aid.

Business Activities

Revenues for the District's School Nutrition Fund were \$963,819 and expenses were \$908,548. The revenues include: charges for services, contributions and federal and state reimbursements.

The Internal Service Fund is used only to collect, hold and pay out money for the District's employee group health insurance plan. Revenues come from the Board of Education's allocation of funds for the health insurance employee benefit, payroll deductions from employee's checks and checks brought in by retiree's that continue to stay on the plan.

Fiduciary Funds

The Trust Funds are funds given and designated by outside groups and people basically to be given as scholarships. These funds are not to be used to support the operations of the District.

The Agency Funds are funds belonging to parent groups, school employee groups and such groups as Athletic Boosters. The school merely holds these funds in a bank account for these groups and writes checks for these groups when directed by the group. These funds are not to be used to support the regular operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Waverly-Shell Rock Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported combined fund balances of \$3,202,943, which is much less than last year's ending fund balance of \$12,617,164.

This is a dramatic reversal as bond proceeds received in the prior fiscal year were spent for the new building. This was anticipated and is no reflection of whether project costs are on budget or not.

Governmental Fund Highlights

- The District has been controlling the decline of its General Fund balance by greatly reducing travel and field trips, and reducing staff slightly where possible.
- Increased open enrollments into the District have helped maintain instructional programs with the increased number of students and tuition-in dollars.
- The District used sales tax dollars to add a gym and auditorium to the senior high school.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget after the required public notice and hearing. The budget for the current fiscal year is usually amended each April for revenues and expenditures that could not be anticipated the prior April. The budget amending process follows similar statutory procedures.

Actual revenues were less than budgeted amounts by \$2,715,860 primarily due to less state source revenue and timing of federal spending. Actual expenses were less than budgeted amounts by \$1,347,119. This was due to the District's practice, as is in most Iowa school districts, to budget expenditures at or about the maximum authorized spending. Also, the budget was amended to reflect a \$3,910,000 increase primarily for new construction and flood damages. As a result, the Districts' certified budget should always exceed the actual expenditures for the year.

The District exceeded the amended budget amount in the other expenditures function. The District did not exceed its unspent authorized budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2011, the District had invested more than \$36,000,000 (net of accumulated depreciation) in a broad range of capital assets including school buildings, athletic facilities, kitchens, computers and audio-visual equipment, administration building, transportation/storage facility, maintenance equipment, school buses and other vehicles, library holdings and textbooks. Total depreciation for the year exceeded \$996,000.

Long-term Debt

The District issued \$15,700,000 of general obligation school bonds for construction of a new building to house grades 5 through 8. The District makes principal and interest payments yearly on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds. \$15,270,000 remain outstanding at June 30, 2011.

The District owes \$1,755,000 of revenue bonds for the construction of an addition to the high school in October 2005. This remains to be paid over the next 5 years with proceeds from the statewide sales, services and use tax.

The District issued \$2,780,000 of revenue bonds for the high school addition. Interest only will be paid for 7 years and principal will be paid from fiscal year 2015 through fiscal year 2022.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Washington Irving School will have to be replaced due to the flood ruining the building. FEMA and Iowa Homeland Security are promising the school significant financial help.
- The Board of Education held a bond referendum on April 7, 2009 to build a new school for all district students in grade 5 through 8. This building would replace Washington Irving School that was totally ruined in the June 12th flood and it also would replace the junior high school that is over 82 years old.
- The District levied \$265,000 allowable growth for dropout prevention.
- The District's employee group health insurance did not increase. This was welcome news to the employees and the Board.
- State Foundation Aid dollars to the District increased \$1,130,000 from fiscal year 2010 to fiscal year 2011. Property tax dollars for the General Fund increased \$1,191,000 from fiscal year 2010 to fiscal year 2011.
- The District began receiving payments in December 2005 for Instructional Support Income Surtax.
- The Greenview Alternative High School in Waverly is becoming a regional alternative high school. Many students come from a variety of neighboring school districts to Greenview. The tuition in, for these students, has been a real positive for the Waverly-Shell Rock Community School District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dennis Stufflebeam, School Business Manager, Waverly-Shell Rock Community Schools, 1415 4th Avenue SW, Waverly, Iowa 50677.

Basic Financial Statements

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 6,283,162	32,877	6,316,039
Receivables:			
Property tax:			
Current year	43,379	-	43,379
Succeeding year	7,001,309	-	7,001,309
Succeeding year income surtax	719,654	-	719,654
Due from other governments	928,661	12,110	940,771
Interfund receivable	26,500	(26,500)	-
Other receivables	145	-	145
Inventories	-	63,312	63,312
Capital assets, net of accumulated depreciation	36,254,164	29,310	36,283,474
Total assets	51,256,974	111,109	51,368,083
Liabilities			
Accounts payable	2,178,907	-	2,178,907
Accrued salary and benefits	1,256,630	39,226	1,295,856
Accrued interest payable	139,111	-	139,111
Deferred revenue:			
Succeeding year property tax	7,001,309	-	7,001,309
Federal programs	336,493	-	336,493
Long term liabilities:			
Portion due within one year:			
Revenue bonds payable	565,000	-	565,000
General obligation bonds payable	640,000	-	640,000
Early retirement payable	41,396	-	41,396
Portion due after one year:			
Revenue bonds payable	3,970,000	-	3,970,000
General obligation bonds payable	14,630,000	-	14,630,000
Early retirement payable	48,322	-	48,322
Net OPEB liability	163,233	-	163,233
Total liabilities	30,970,401	39,226	31,009,627
Net assets			
Invested in capital assets, net of related debt	16,449,164	29,310	16,478,474
Restricted for:			
Categorical funding	484,734	-	484,734
Student activities	360,802	-	360,802
Management levy	319,277	-	319,277
School infrastructure	4,658,365	-	4,658,365
Physical plant and equipment levy	103,133	-	103,133
Debt service	38,827	-	38,827
Health insurance	306,874	-	306,874
Unrestricted	(2,434,603)	42,573	(2,392,030)
Total net assets	\$ 20,286,573	71,883	20,358,456

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction	\$ 15,123,010	1,049,102	3,471,346	-	(10,602,562)	(10,602,562)
Support services:						
Student services	387,765	-	-	(387,765)	-	(387,765)
Instructional staff services	668,934	-	-	(668,934)	-	(668,934)
Administration services	1,659,660	-	-	(1,659,660)	-	(1,659,660)
Operation and maintenance of plant services	1,660,045	-	8,210	(1,651,835)	-	(1,651,835)
Transportation services	653,502	187,120	-	(466,382)	-	(466,382)
	5,029,906	187,120	8,210	(4,834,576)	-	(4,834,576)
Other expenditures:						
Facilities acquisition	620,268	-	-	7,144,271	6,524,003	6,524,003
Interest on long term debt	839,214	-	827	-	(838,387)	(838,387)
Long-term debt service	693	-	-	-	(693)	(693)
AEA flowthrough	850,882	-	850,882	-	-	-
Depreciation (unallocated) *	989,654	-	-	-	(989,654)	(989,654)
	3,300,711	-	851,709	7,144,271	4,695,269	4,695,269
Total governmental activities	23,453,627	1,236,222	4,331,265	7,144,271	(10,741,869)	(10,741,869)

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Expenses					Total
Business Type activities:					
Non-instructional programs:					
Nutrition services	908,547	588,792	375,027	-	55,272
Total	<u>\$ 24,362,174</u>	<u>1,825,014</u>	<u>4,706,292</u>	<u>(10,741,869)</u>	<u>(10,686,597)</u>
General Revenues:					
Property tax levied for:					
General purposes				\$ 5,439,590	-
Management fund				327,904	-
Debt service				1,208,174	-
Capital outlay				203,467	-
Income surtax				767,109	-
Statewide sales, services and use tax				1,196,965	-
Unrestricted state grants				7,486,753	-
Unrestricted investment earnings				363	-
Other				119,578	-
Total general revenues				<u>16,749,903</u>	<u>-</u>
Change in net assets				6,008,034	55,272
Net assets beginning of year (as restated)				<u>14,278,539</u>	<u>16,611</u>
Net assets end of year				<u>\$ 20,286,573</u>	<u>71,883</u>
					<u>20,358,456</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

Assets

Cash and pooled investments
Receivables:
Property tax:
 Current year
 Succeeding year
Income surtax
Due from other governments
Interfund receivable
Other receivables

	General	Student Activity	Management Levy	Capital Projects				Debt Service	Total
				Statewide Sales	Physical Plant and Equipment	Use Tax	Levy		
\$	176,362	360,802	411,385	4,893,199	102,127			32,413	5,976,288
	34,330	-	1,629	-	1,006			6,414	43,379
	5,299,342	-	320,776	-	196,919			1,184,272	7,001,309
	719,654	-	-	-	-			-	719,654
	472,093	-	-	456,568	-			-	928,661
	-	-	-	1,349,271	-			-	1,349,271
	-	-	145	-	-			-	145
	6,701,781	360,802	733,935	6,699,038	300,052			1,223,099	16,018,707
Total assets									

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

Liabilities and Fund Balances

Liabilities:

Accounts payable	134,070	-	4,164	2,040,673	-	-	2,178,907
Accrued salary and benefits	1,256,630	-	-	-	-	-	1,256,630
Interfund payable	1,322,771	-	-	-	-	-	1,322,771
Deferred revenue:							
Succeeding year property tax	5,299,342	-	320,776	-	196,919	1,184,272	7,001,309
Succeeding year income surtax	719,654	-	-	-	-	-	719,654
Federal programs	336,493	-	-	-	-	-	336,493
Total liabilities	9,068,960	-	324,940	2,040,673	196,919	1,184,272	12,815,764

Fund balances:

Restricted for:							
Categorical funding	484,734	-	-	-	-	-	484,734
Student activities	-	360,802	-	-	-	-	360,802
Management levy	-	-	408,995	-	-	-	408,995
School infrastructure	-	-	-	4,658,365	-	-	4,658,365
Physical plant and equipment levy	-	-	-	-	103,133	-	103,133
Debt service	-	-	-	-	-	38,827	38,827
Unassigned	(2,851,913)	-	-	-	-	-	(2,851,913)
Total fund balances	(2,367,179)	360,802	408,995	4,658,365	103,133	38,827	3,202,943
Total liabilities and fund balances	\$ 6,701,781	360,802	733,935	6,699,038	300,052	1,223,099	16,018,707

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (Exhibit C)	\$ 3,202,943
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Income surtax receivable at June 30, 2011 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities.	719,654
Internal Service fund assets that are to be included with governmental funds.	306,874
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	36,254,164
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(139,111)
Long-term liabilities, including bonds payable, early retirement payments and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds	<u>(20,057,951)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 20,286,573</u></u>

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

Revenues:									
Local sources:									
Local tax	\$ 6,104,612	-	327,904	1,196,965	203,467	1,208,174	9,041,122		
Tuition	1,049,102	-	-	-	-	-	1,049,102		
Other	188,498	1,064,370	1,383	1,453,371	6,483	76	2,714,181		
State sources	9,783,890	-	226	-	118	751	9,784,985		
Federal sources	1,078,784	-	-	-	-	-	1,078,784		
Total revenues	18,204,886	1,064,370	329,513	2,650,336	210,068	1,209,001	23,668,174		
Expenditures:									
Instruction	14,051,533	941,158	129,843	-	-	-	15,122,534		
Support services:									
Student services	387,765	-	-	-	-	-	387,765		
Instructional staff services	668,934	-	-	-	-	-	668,934		
Administration services	1,526,341	-	133,319	-	-	-	1,659,660		
Operation and maintenance of plant services	1,570,972	-	56,623	-	32,450	-	1,660,045		
Transportation services	638,927	-	14,575	-	174,248	-	827,750		
	4,792,939	-	204,517	-	206,698	-	5,204,154		
Other expenditures									
Facilities acquisition	-	-	-	15,665,625	5,569	-	15,671,194		
Principal on long-term debt	-	-	-	-	-	975,000	975,000		
Interest on long-term debt	-	-	-	-	-	949,338	949,338		
Long-term debt services	-	-	-	-	-	693	693		
AEA flowthrough	850,882	-	-	-	-	-	850,882		
	850,882	-	-	15,665,625	5,569	1,925,031	18,447,107		
Total expenditures	19,695,354	941,158	334,360	15,665,625	212,267	1,925,031	38,773,795		

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2011

	General	Student Activity	Management Levy	Capital Projects				Debt Service	Total
				Statewide Sales Service and Use Tax	Physical Plant and Equipment Levy				
Excess (Deficiency) of revenues over (under) expenditures	(1,490,468)	123,212	(4,847)	(13,015,289)	(2,199)		(716,030)	(15,105,621)	
Other financing sources (uses):									
Insurance reimbursements for flood damage	459,878	-	-	5,231,022	-		-	5,690,900	
Proceeds from sale of property	-	-	-	-	500		-	500	
Operating transfers in	-	-	-	-	-		752,780	752,780	
Operating transfers out	-	-	-	(752,780)	-		-	(752,780)	
	459,878	-	-	4,478,242	500		752,780	5,691,400	
Net change in fund balances	(1,030,590)	123,212	(4,847)	(8,537,047)	(1,699)		36,750	(9,414,221)	
Fund balances beginning of year	(1,336,589)	237,590	413,842	13,195,412	104,832		2,077	12,617,164	
Fund balances end of year	\$ (2,367,179)	360,802	408,995	4,658,365	103,133		38,827	3,202,943	

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit E) \$ (9,414,221)

**Amounts reported for governmental activities in the Statement of
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities. This represents the change in income surtax receivable from the prior fiscal year. 102,087

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 15,225,174	
Depreciation expense	<u>(989,654)</u>	14,235,520

Repayment of long-term liabilities is an expenditure in the government funds, but the repayment reduces long-term liabilities in the Statement of net assets 975,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	190,893	
Other postemployment benefits	<u>(78,100)</u>	112,793

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 110,124

Internal Service Fund transactions are not reported in the General Fund as revenues and expenditures, however the General Fund is the source of these revenues and use of the expenditures. (113,269)

Change in net assets of governmental activities (Exhibit B) \$ 6,008,034

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

Year ended June 30, 2011

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Assets		
Cash and pooled investments	\$ 32,877	306,874
Other receivables	12,110	-
Inventories	63,312	-
Capital assets, net of accumulated depreciation	29,310	-
Total assets	<u>137,609</u>	<u>306,874</u>
Liabilities		
Interfund payable	26,500	-
Accrued salary and benefits	39,226	-
Total liabilities	<u>65,726</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	29,310	-
Restricted for health insurance	-	306,874
Unrestricted	42,573	-
Total net assets	<u>\$ 71,883</u>	<u>306,874</u>

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2011

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Operating revenue:		
Local sources:		
Charges for services	\$ 588,792	1,138,269
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	441,824	-
Benefits	72,247	-
Supplies	388,050	-
Depreciation	6,426	-
	908,547	-
Internal service programs:		
Benefits	-	1,251,538
Total operating expenses	908,547	1,251,538
Operating income (loss)	(319,755)	(113,269)
Non-operating revenues:		
State sources	7,501	-
Federal sources	367,526	-
	375,027	-
Net change in fund net assets	55,272	(113,269)
Net assets beginning of year	16,611	420,143
Net assets end of year	\$ 71,883	306,874

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2011

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of services	\$ 577,825	1,138,269
Cash payments to employees for services	(519,061)	(1,251,538)
Cash payments to suppliers for goods or services	(317,958)	-
Net cash (used in) operating activities	(259,194)	(113,269)
Cash flows from non-capital financing activities:		
State grants received	7,501	-
Federal grants received	279,032	-
Net cash provided by non-capital financing activities	286,533	-
Cash flows from capital financing activities:		
Interfund loan from capital projects fund	(12,500)	-
Net increase(decrease) in cash and cash equivalents	14,839	(113,269)
Cash and cash equivalents beginning of year	18,038	239,559
Cash and cash equivalents end of year	\$ 32,877	126,290
Reconciliation of operating (loss) to net cash (used in) operating activities:		
Operating (loss)	\$ (319,755)	(113,269)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:		
Depreciation	6,426	-
Commodities used	88,494	-
(Increase) in other receivables	(10,967)	-
(Increase) in inventory	(18,402)	-
(Decrease) in accrued payroll and benefits	(4,990)	-
	\$ (259,194)	(113,269)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$88,494.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2011

	Private Purpose Trusts	Agency Funds	Total
Assets			
Cash and pooled investments	\$ 106,832	62,318	169,150
Total assets	<u>106,832</u>	<u>62,318</u>	<u>169,150</u>
Liabilities			
Other payables	-	62,318	62,318
Net Assets			
Reserved for scholarships	75,812	-	75,812
Unreserved, undesignated	31,020	-	31,020
Total net assets	<u>\$ 106,832</u>	<u>-</u>	<u>106,832</u>

See notes to financial statements.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	Private Purpose Trusts
	<hr/>
Additions:	
Local sources:	
Total additions	\$ 78,392
Deductions:	
Support services:	
Supplies	73,243
Scholarships	<u>1,500</u>
Total deductions	<u>74,743</u>
Change in net assets	3,649
Net assets beginning of year	<u>103,183</u>
Net assets end of year	<u><u>\$ 106,832</u></u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

Waverly-Shell Rock Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Waverly and Shell Rock, Iowa, and agricultural area in Black Hawk, Bremer and Butler Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Waverly-Shell Rock Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Waverly-Shell Rock Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Bremer County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund, Physical Plant and Equipment Levy is utilized to account for the maintenance and equipping of the District's facilities.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Capital Projects Fund, Statewide Sales, Services and Use Tax is used to account for all resources used in the acquisition and construction of capital facilities.

The District's major proprietary funds are the Enterprise, School Nutrition Fund and Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's medical insurance plan.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Intangible assets	150,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets we depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangible assets	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent federal program revenues.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2011.

Long-Term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures exceeded the amended amount budgeted in the other expenditures function. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2011.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 539,142	139,328	-	678,470
Construction in progress	<u>7,619,393</u>	<u>-</u>	<u>7,619,393</u>	<u>-</u>
	<u>8,158,535</u>	<u>139,328</u>	<u>7,619,393</u>	<u>678,470</u>
Capital assets being depreciated:				
Buildings	19,519,877	22,498,541	-	42,018,418
Improvements other than buildings	498,876	-	-	498,876
Furniture and Equipment	<u>2,656,915</u>	<u>206,698</u>	<u>-</u>	<u>2,863,613</u>
Total capital assets being depreciated	<u>22,675,668</u>	<u>22,705,239</u>	<u>-</u>	<u>45,380,907</u>
Less accumulated depreciation for:				
Buildings	6,469,976	809,128	-	7,279,104
Improvements other than buildings	340,658	13,968	-	354,626
Furniture and Equipment	<u>2,004,925</u>	<u>166,558</u>	<u>-</u>	<u>2,171,483</u>
Total accumulated depreciation	<u>8,815,559</u>	<u>989,654</u>	<u>-</u>	<u>9,805,213</u>
Total capital assets being depreciated, net	<u>13,860,109</u>	<u>21,715,585</u>	<u>-</u>	<u>35,575,694</u>
Governmental activities, capital assets, net	<u>\$ 22,018,644</u>	<u>21,854,913</u>	<u>7,619,393</u>	<u>36,254,164</u>
Business type activities:				
Furniture and Equipment	\$ 234,456	-	-	234,456
Less accumulated depreciation	<u>199,556</u>	<u>5,590</u>	<u>-</u>	<u>205,146</u>
	<u>\$ 34,900</u>	<u>(5,590)</u>	<u>-</u>	<u>29,310</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>\$ 989,654</u>
Business type activities:				
Food service operations				<u>\$ 6,426</u>

(4) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	Balance Beginning Year	Additions	Reductions	Balance End of Year	Due Within One Year
Net OPEB Liability	\$ 85,133	78,100	-	163,233	-
General Obligation Bonds	15,700,000	-	430,000	15,270,000	640,000
Early Retirement	280,611	-	190,893	89,718	41,396
Revenue Bonds	<u>5,080,000</u>	<u>-</u>	<u>545,000</u>	<u>4,535,000</u>	<u>565,000</u>
Total	<u>\$21,145,744</u>	<u>78,100</u>	<u>1,165,893</u>	<u>20,057,951</u>	<u>1,246,396</u>

Revenue Bonds Payable

Details of the District's June 30, 2011 revenue bond are as follows:

Year Ending June 30,	Bond Issue of May 1, 2006			
	Interest Rates	Interest	Principal	Total
2012	3.56%	\$ 62,478	565,000	627,478
2013	3.56	42,364	585,000	627,364
2014	3.56	<u>21,538</u>	<u>605,000</u>	<u>626,538</u>
Total		<u>\$126,380</u>	<u>1,755,000</u>	<u>1,881,380</u>

Year Ending June 30,	Bond Issue of September 1, 2007			
	Interest Rates	Interest	Principal	Total
2012	4.50%	\$125,100	-	125,100
2013	4.50	125,100	-	125,100
2014	4.50	125,100	-	125,100
2015	4.50	125,100	400,000	525,100
2016	4.50	107,100	390,000	497,100
2017-2021	4.50	287,550	1,700,000	1,987,550
2022	4.50	<u>13,050</u>	<u>290,000</u>	<u>303,050</u>
Total		<u>\$908,100</u>	<u>2,780,000</u>	<u>3,688,100</u>

The District has pledged future statewide sales, services and use tax revenues to repay the bonds issued in May, 2006 and September, 2007. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2022. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$5,569,480. For the current year, \$751,980 of principal and interest was paid on the bonds and total statewide sales, service and use tax revenues were \$1,196,965.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$678,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account. That account currently has a balance of \$781,116.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District is in compliance with all of these items.

General Obligation Bonded Indebtedness

The voters of the District approved the issuance of \$15.7 million in general obligation bonds for the construction of a new school building housing grades 5 through 8. This will replace the Irving building which was ruined in the 2008 flood and the junior high building which was over 80 years old.

Year Ending June 30,	Bond Issue of February 1, 2010			
	Rates	Principal	Interest	Total
2012	3.00 %	\$ 640,000	543,868	1,183,868
2013	3.00	655,000	524,669	1,179,669
2014	3.00	665,000	505,019	1,170,019
2015	3.00	680,000	485,069	1,165,069
2016	3.00	700,000	464,668	1,164,668
2017-2021	3.25-3.50	3,880,000	1,963,619	5,843,619
2022-2026	3.50-3.875	4,705,000	1,222,181	5,927,181
2027-2029	4.00-4.125	<u>3,345,000</u>	<u>275,969</u>	<u>3,620,969</u>
Total		<u>\$15,270,000</u>	<u>5,985,062</u>	<u>21,255,062</u>

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$740,959, \$726,681 and \$650,558 respectively, equal to the required contributions for each year.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$850,882 for year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2011 totaled \$190,893.

(8) Risk Management

Waverly-Shell Rock Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 156 active and 29 retired members in the plan. Participants must be age 55 or older at retirement. All are included in this valuation.

The medical insurance coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/insurance benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 75,972
Interest on net OPEB Obligation	2,128
Adjustment to annual required contribution	-
Annual OPEB Cost	<u>78,100</u>
Contributions made	-
Increase in net OPEB obligation	<u>78,100</u>
Net OPEB obligation beginning of year	<u>85,133</u>
Net OPEB obligation end of year	<u>\$163,233</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$65,671	0.00%	\$ 65,671
June 30, 2010	\$70,634	72.80%	\$ 85,133
June 30, 2011	\$78,100	0.00%	\$163,233

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$540,796, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$540,796. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,661,000 and the ratio of the UAAL to covered payroll was 5.1%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. A zero employee turnover rate is assumed.

No benefit continuation is assumed past the age of 65. Due to the actuarial cost method selected, benefits are not related to salary levels.

(10) Financial Condition

The General Fund had a deficit balance of \$2,367,179 at June 30, 2011.

(11) Commitment

At June 30, 2011, the District had entered into contracts for \$21,841,655 for the construction of a new school building to house grades 5 through 8 as well as a safe room at the high school. As the project is materially complete and the building is occupied, the amounts have been added to the cost of buildings in the capital assets. The following amounts are as of June 30, 2011.

Total Contracts	\$21,841,656
Total Completed	19,556,144
Retainage	977,807
Current Payable	1,242,695
To be completed	2,285,512

(12) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects, Physical Plant and Equipment Levy	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ -	104,832
Change in fund type classification per implementation of GASB Statement No. 54	104,832	(104,832)
Balances July 1, 2010, as restated	\$104,832	-

Required Supplementary Information

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues						
Local sources	\$ 12,804,405	588,792	13,393,197	14,043,890	14,043,890	(650,693)
State sources	9,784,985	7,501	9,792,486	11,238,389	11,238,389	(1,445,903)
Federal sources	1,078,784	367,526	1,446,310	7,756,974	7,756,974	(6,310,664)
Total revenues	<u>23,668,174</u>	<u>963,819</u>	<u>24,631,993</u>	<u>33,039,253</u>	<u>33,039,253</u>	<u>(8,407,260)</u>
Expenditures/Expenses						
Instruction	15,122,534	-	15,122,534	15,931,981	16,582,981	1,460,447
Support services	5,204,154	-	5,204,154	5,494,835	5,543,835	339,681
Non-instructional programs	-	908,548	908,548	1,505,000	1,715,000	806,452
Other expenditures	18,447,107	-	18,447,107	14,187,676	17,187,676	(1,259,431)
Total expenditures/expenses	<u>38,773,795</u>	<u>908,548</u>	<u>39,682,343</u>	<u>37,119,492</u>	<u>41,029,492</u>	<u>1,347,149</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(15,105,621)	55,271	(15,050,350)	(4,080,239)	(7,990,239)	(7,060,111)
Other financing sources (uses)	<u>5,691,400</u>	<u>-</u>	<u>5,691,400</u>	<u>-</u>	<u>-</u>	<u>5,691,400</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(9,414,221)	55,271	(9,358,950)	(4,080,239)	(7,990,239)	(1,368,711)
Balance beginning of year	<u>12,617,164</u>	<u>16,611</u>	<u>12,633,775</u>	<u>4,608,459</u>	<u>4,608,459</u>	<u>8,025,316</u>
Balance end of year	<u>\$ 3,202,943</u>	<u>71,882</u>	<u>3,274,825</u>	<u>528,220</u>	<u>(3,381,780)</u>	<u>6,656,605</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$3,910,000.

During the year ended June 30, 2011, expenditures exceeded the amended amount budgeted in the other expenditures function. The District did not exceed the General Fund unspent authorized budget.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Jul 1, 2009	\$0	\$541	\$541	0.0%	\$10,095	5.4%
Jul 1, 2010	\$0	\$541	\$541	0.0%	\$11,120	4.9%
Jul 1, 2011	\$0	\$541	\$541	0.0%	\$10,380	5.2%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Vocal Music	\$ 5,778	15,435	8,297	12,916
JH Variety Vocal	4,741	9,333	5,910	8,164
Instrumental Music	3,070	15,373	15,604	2,839
Elementary Band	2,910	2,917	2,026	3,801
Miscellaneous Sports	822	43,859	39,975	4,706
JH Track	(78)	417	298	41
Cross Country	1,050	4,364	4,956	458
Boys Basketball	(2,676)	51,474	48,798	-
JH Boys Basketball	487	560	780	267
Football	(3)	59,326	58,764	559
JH Football	(7,689)	8,879	1,190	-
Boys Soccer	(498)	14,557	13,935	124
Baseball	(2,158)	32,145	27,232	2,755
Boys Track	(920)	9,900	7,625	1,355
Boys Tennis	185	30	145	70
Boys Golf	888	1,103	1,991	-
Wrestling	(2,787)	40,549	37,460	302
Weightlifting	1,934	6,434	6,068	2,300
JH Wrestling	115	635	705	45
Girls Basketball	(2,003)	16,651	13,930	718
JH Girls Basketball	649	1,051	1,700	-
Girls Volleyball	1,005	16,083	16,805	283
JH Girls Volleyball	68	1,567	1,586	49
Girls Soccer	2,921	13,653	16,574	-
Girls Softball	(3,334)	30,011	21,991	4,686
Girls Track	(1,752)	13,105	11,353	-
Girls Tennis	1,377	1,106	2,483	-
Girls Golf	(54)	494	119	321
Dance Team	(385)	12,625	10,154	2,086
Masquers	8,195	13,011	13,799	7,407
Art Club	4,290	1,625	-	5,915
Boys W Club	699	-	-	699
Science Club	8,387	1,113	1,111	8,389
Energy Team	273	-	-	273
National Honor Society	1,165	160	284	1,041
Publications	1,724	-	-	1,724
Student Senate	2,112	4,668	3,615	3,165
SADD	258	313	321	250
Class of 2013	383	-	-	383
Class of 2014	(1,830)	1,861	31	-
Class of 2011	496	2,828	3,324	-
Class of 2012	649	2,809	2,222	1,236
Varsity Club	61	2,857	2,918	-
Annual	20,122	27,250	31,611	15,761
Guidance Transcripts	3,815	446	319	3,942

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
French Club	490	1,449	1,553	386
Spanish Club Student Accounts	8,676	10,539	12,142	7,073
Spanish Club Operating Accounts	6,354	2,701	3,769	5,286
FFA	234	36,686	35,166	1,754
German Club	1,191	2,004	2,156	1,039
DECA	5,330	11,892	11,792	5,430
String Music	803	5,451	3,199	3,055
HS Football Cheerleaders	807	5,353	4,409	1,751
Band Uniform Cleaning	1,138	32,233	21,465	11,906
HS Basketball Cheerleaders	(680)	1,732	612	440
HS Wrestling Cheerleaders	409	4,087	4,486	10
JH Cheerleaders	381	575	481	475
JH Student Council	(1,167)	14,818	13,651	-
JH Activity	371	52,637	32,218	20,790
JH Annual	1,497	1,245	2,544	198
JH Cookie Sales	506	1,688	1,521	673
Trapshooting	1,188	1,388	2,276	300
Junior High Band Rental & Repair	1,503	3,584	2,918	2,169
Irving Account	(276)	2,516	981	1,259
Buxton TAG	1,301	960	688	1,573
Shell Rock Activity Fund	6,652	5,408	6,713	5,347
Carey Account	90	1,925	1,106	909
Carey Second Grade - Mrs. Howell	50	-	-	50
West Cedar Account	294	1,731	1,466	559
MOC	182	-	54	128
Elementary Chorus - Hansen	707	545	547	705
Athletic Director	(6,474)	18,872	10,875	1,523
Wizard of Oz	2,012	4,489	3,865	2,636
German Club Obligations	2,634	1,200	1,050	2,784
Other Activities	7,929	5,910	8,628	5,211
Pictures	3,791	55,970	33,712	26,049
Christmas Card	3,442	1,953	1,250	4,145
Change Fund	(2,657)	13,963	11,306	-
Books	3,328	71,479	50,335	24,472
Activity Tickets	5,643	19,153	20,249	4,547
School Lunch	4,558	55,713	48,845	11,426
Transportation pop	1,688	2,624	1,718	2,594
W-SR Wilderness	3,712	3,222	3,916	3,018
Instrumental Repair	663	2,262	2,925	-
HS Strings Fundraising	859	-	-	859
PE Stores	1,106	1,327	2,433	-
String Music Stores	(553)	2,601	2,048	-
Band Stores - High School	(656)	1,061	405	-
Calculators - HS Math Dept	259	2,638	2,853	44
SH Band Fundraiser	(781)	42,091	35,578	5,732
Home Ec Stores	(1,363)	3,207	1,844	-

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Ind Tech Stores - HS	4,204	12,931	14,870	2,265
HS Pop	1,642	5,192	1,489	5,345
High School Library	1,227	639	973	893
JH Courtesy	80	2,145	391	1,834
JH Band Stores	(152)	1,089	937	-
JH Tech Stores	200	968	317	851
JH Library	199	87	57	229
Shop Group Shell Rock	169	-	-	169
JH Industrial Technology	20,000	19,750	37,446	2,304
JH Chess Club	2	-	2	-
JH Video Club	60	-	-	60
Shell Rock Pop	817	789	949	657
Entrepreneurship Class	741	21,923	21,973	691
Recycling - Carlson	420	9	429	-
Friends of the WSR High School Library	-	1,405	1,331	74
Bus Buddies	388	8	396	-
IT Vehicle Fund	117	25	-	142
JH Home Economics	7,210	11,639	8,272	10,577
Southeast Library	116	158	66	208
Carey Library	208	128	125	211
Irving Library	229	576	162	643
Shell Rock Library	44	140	37	147
JH Art	1,637	3,053	4,690	-
West Cedar Library	222	895	883	234
Southeast School	7,106	5,691	3,931	8,866
Middle School Reading	-	139	136	3
Business Office - Miscellaneous	(1,255)	25,499	24,244	-
TAG Award	1,676	-	-	1,676
JH Plus Program	(422)	422	-	-
B&K Homeroom	286	-	-	286
HS Technology Grants	(731)	849	118	-
Irving Transportation Donation	3,518	225	1,461	2,282
Mr. Winter's Account	6,219	483	1,838	4,864
HS Character Counts	330	-	-	330
HS Vocal Music Fund Raising	702	-	-	702
HS Vocal Music	2,493	-	2,493	-
HS Vocal Music Cheese and Sausage	880	7,785	7,665	1,000
HS Vocal Music Account	10,106	78	1,860	8,324
HS Vocal Music Trips	3,442	-	-	3,442
HS Musical	5,210	8,250	7,178	6,282
Florida Band Trip	-	2,016	-	2,016
HS Vocal Music Uniform Account	3,277	4,408	5,556	2,129
High School Jazz	2,296	1,608	1,758	2,146
String Rental	(27)	105	78	-
Transportation - West Cedar	3,677	1,937	2,536	3,078
Advisor/Advisor	405	627	442	590
Elem Art Contest	944	-	-	944

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Elem Art	115	-	-	115
Mrs. Ribich Class Project	39	-	-	39
Elem & JH String Rentals	3,014	1,790	1,486	3,318
Elem & JH String Stores	282	1,007	1,289	-
MS ASAP	73	411	484	-
JH Math	145	-	-	145
8th Grade History Project	-	500	401	99
PLUS Program Math Competition	993	1,302	1,191	1,104
SH Transportation Monies	303	-	174	129
HS Front Door Donations	500	-	-	500
Prairie Project	9,105	92	3,319	5,878
Team Sigma	3,307	1,159	3,771	695
Team GR8	612	302	638	276
Dream Team	1,130	994	758	1,366
Team Axis	991	-	61	930
JH Teachers Associates	(41)	41	-	-
JH SLI	(19)	898	879	-
HS Advance Placement	3,443	4,592	5,701	2,334
JH Juice	317	-	317	-
Bowling Account	77	1,947	1,979	45
National French Contest	1,659	65	1,724	-
National Honor Society Banquet	-	5,074	5,074	-
Total	237,590	1,159,304	1,036,092	360,802
Less interaccount transfers		(94,934)	(94,934)	
Total	\$ 237,590	1,064,370	941,158	360,802

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICTCombining Statement of Fiduciary Net Assets
Private Purpose Trusts

Year ended June 30, 2011

	Carey Parents	William Wood Scholarship	Jr High Jamison	W. Cedar Parents	Dierks Scholarship	Kenneth Stumme Scholarship	HS Math/ Science	Elementary PE	DECA Student Account
Assets									
Cash and pooled investments	\$ 6,457	1,509	142	9,459	50,882	23,421	371	130	780
	<u>6,457</u>	<u>1,509</u>	<u>142</u>	<u>9,459</u>	<u>50,882</u>	<u>23,421</u>	<u>371</u>	<u>130</u>	<u>780</u>
Net Assets									
Reserved for scholarships	-	1,509	-	-	50,882	23,421	-	-	-
Unreserved	<u>6,457</u>	<u>-</u>	<u>142</u>	<u>9,459</u>	<u>-</u>	<u>-</u>	<u>371</u>	<u>130</u>	<u>780</u>
	<u>\$ 6,457</u>	<u>1,509</u>	<u>142</u>	<u>9,459</u>	<u>50,882</u>	<u>23,421</u>	<u>371</u>	<u>130</u>	<u>780</u>

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets
Private Purpose Trusts

Year ended June 30, 2011

	Irving L Effle	Jr High Rohne	Shell Rock Rozen	Irving Crandall	Shell Rock Huberg	Shell Rock Greenlee	Junior High Dueker	Joan Greenlee Walmart	Jr High Boerigter
Cash and pooled investments	130	144	316	242	422	591	277	21	140
	130	144	316	242	422	591	277	21	140

Assets

Net Assets

Reserved for scholarships	-	-	-	-	-	-	-	-	-
Unreserved	130	144	316	242	422	591	277	21	140
	130	144	316	242	422	591	277	21	140

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets
Private Purpose Trusts

Year ended June 30, 2011

	HS Inclusion	Shell Rock Jessica Johnson	Junior High Harrell	Donation West Cedar	Pepsi Athletics	Knights of Columbus	Southeast Parents	Total
Assets								
Cash and pooled investments	758	75	495	92	40	2,559	7,379	106,832
	<u>758</u>	<u>75</u>	<u>495</u>	<u>92</u>	<u>40</u>	<u>2,559</u>	<u>7,379</u>	<u>106,832</u>
Net Assets								
Reserved for scholarships	-	-	-	-	-	-	-	75,812
Unreserved	<u>758</u>	<u>75</u>	<u>495</u>	<u>92</u>	<u>40</u>	<u>2,559</u>	<u>7,379</u>	<u>31,020</u>
	<u>758</u>	<u>75</u>	<u>495</u>	<u>92</u>	<u>40</u>	<u>2,559</u>	<u>7,379</u>	<u>106,832</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Combining Statement of Changes in Fiduciary Net Assets
Private Purpose Trust

Year ended June 30, 2011

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Carey Parents	\$ 7,342	15,893	16,778	6,457
William Wood Scholarship	1,500	9	-	1,509
Jr High Jamison	64	78	-	142
W Cedar Parents	7,190	19,851	17,582	9,459
Dierks Scholarship	50,832	1,550	1,500	50,882
Kenneth Stumme Scholarship	23,421	-	-	23,421
HS Math/Science	371	-	-	371
Elementary PE	130	-	-	130
DECA Student Account	47	20,339	19,606	780
Irving - L Effle	52	78	-	130
HS Special Education	1,857	-	1,857	-
Jr High Rohne	66	78	-	144
Shell Rock Rozen	316	-	-	316
Carey - J Clausing	164	78	-	242
Shell Rock Huberg	344	78	-	422
Shell Rock Greenlee	570	78	57	591
Junior High Dueker	277	-	-	277
Joan Greelee Walmart	124	-	103	21
Junior High Boerigter	62	78	-	140
HS Inclusion	(171)	929	-	758
HS Art Kiln	403	-	403	-
Shell Rock Jessica Johnson	75	-	-	75
Junior High Harrell	417	78	-	495
West Cedar - Anderson	(136)	136	-	-
Knights of Columbus	560	2,243	244	2,559
Donation West Cedar	92	30	30	92
Pepsi Athletics	1,000	1,000	1,960	40
Southeast Parents	6,214	15,788	14,623	7,379
	<u>\$ 103,183</u>	<u>78,392</u>	<u>74,743</u>	<u>106,832</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund

Year ended June 30, 2011

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
"Catch The Spirit" Foundation	\$ -	6,050	5,808	242
HS Benevolent	214	180	190	204
Irving Social Fund	65	210	157	118
High School Food Drive	350	-	-	350
Maintenance Courtesy	-	35	35	-
Transportation Courtesy	19	80	35	64
Irving Parent Account	3,291	7,319	6,586	4,024
Junior High Parent Account	5,101	13,634	10,511	8,224
Secretary Courtesy	50	120	97	73
Concessions - Athletic Boosters	22,266	150,106	131,532	40,840
Membership - Athletic Boosters	359	41,467	40,672	1,154
Athletic Boosters - Facility/Equipment	961	-	47	914
Athletic Boosters - Addl Events	17,200	16,937	31,573	2,564
Athletic Booster Resale	-	20,203	17,700	2,503
Athletic Boosters Budgeted	897	4,123	4,921	99
Athletic Boosters Wishlist	113	-	-	113
Athletic Boosters Operational	100	-	-	100
Employee Wellness	860	-	140	720
CPR/AED Fund	12	-	-	12
	<u>\$ 51,858</u>	<u>260,464</u>	<u>250,004</u>	<u>62,318</u>

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Eight Years

		Modified Accrual Basis							
		2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 9,041,122	7,842,434	7,670,444	7,251,512	7,048,847	6,376,517	5,495,828	5,065,151	
Tuition	1,049,102	968,240	807,288	799,477	942,258	909,463	783,604	709,076	
Other	2,714,181	1,865,455	1,463,780	1,751,178	1,809,680	1,825,532	1,501,415	1,265,994	
State sources	9,784,985	8,319,827	9,264,724	8,592,584	8,162,461	7,780,538	7,529,667	7,174,426	
Federal sources	1,078,784	1,598,254	516,035	393,148	417,334	449,712	328,804	464,678	
Total	<u>\$23,668,174</u>	<u>20,594,210</u>	<u>19,722,271</u>	<u>18,787,899</u>	<u>18,380,580</u>	<u>17,341,762</u>	<u>15,639,318</u>	<u>14,679,325</u>	
Expenditures:									
Instruction	\$15,122,534	14,074,567	13,650,217	12,106,920	11,343,858	11,075,422	10,234,785	9,190,226	
Support services:									
Student	387,765	391,926	373,380	348,133	342,361	344,924	334,727	323,479	
Instructional staff	668,934	592,436	609,775	597,333	563,623	545,859	562,566	581,294	
Administration	1,659,660	1,834,695	1,535,002	1,459,945	1,374,027	1,323,877	1,397,024	1,392,269	
of plant									
Operation and maintenance	1,660,045	1,622,878	3,519,618	1,674,624	1,361,334	1,451,174	1,170,050	1,077,131	
Transportation	827,750	594,974	824,863	702,297	663,258	549,698	519,403	547,643	
Other expenditures:									
Facilities acquisition	15,671,194	7,871,906	800,562	2,640,810	4,686,356	2,643,509	455,770	356,576	
Debt Service:									
Principal	975,000	525,000	910,000	880,000	855,000	470,000	460,000	455,000	
Interest and service charges	950,031	261,043	254,238	259,853	179,660	21,697	42,743	57,221	
AEA flowthrough	850,882	834,410	688,570	633,205	596,701	546,568	544,101	541,453	
Total	<u>\$38,773,795</u>	<u>28,603,835</u>	<u>23,166,225</u>	<u>21,303,120</u>	<u>21,966,178</u>	<u>18,972,728</u>	<u>15,721,169</u>	<u>14,522,292</u>	

See accompanying independent auditor's report.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY11	\$ 18,347
Food Distribution (non-cash)	10.555	FY11	88,494
National School Lunch Program	10.555	FY11	<u>260,685</u>
			<u>367,526</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY11	151,974
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY11	87
Improving Teacher Quality States Grants	84.367	FY11	54,286
Grants for Assessments and Related Activities	84.369	FY11	5,895
Vocational Education - Basic Grants to States	84.048	FY11	12,392
ARRA - State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act	84.394	FY11	101,628
ARRA - State Fiscal Stabilization Fund (SFSF) Government Services, Recovery Act	84.397	FY11	90,648
Education Jobs Fund	84.410	FY11	386,161
Area Education Agency 267			
Special Education - Grants to States (IDEA Part B)	84.027	FY11	<u>99,147</u>
Total			<u>\$ 1,269,744</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Waverly-Shell Rock Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants

- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation

- Year Round Tax Planning

- Payroll & Sales Tax Preparation

- I.R.S. Representation

- Monthly/Quarterly Write-Up

- Data Processing Services

- Payroll Preparation

- Financial Statement Preparation

- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience

- Evenings & Saturdays Available by Appointment

- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of the
Waverly-Shell Rock Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Waverly-Shell Rock Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 28, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waverly-Shell Rock Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Waverly-Shell Rock Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Waverly-Shell Rock Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompany Schedule of Findings and Questioned Costs as item II-C-11 to be a significant deficiency.

202 Central Avenue East
P.O. Box 241
Clarion, IA 50525

Phone: (515) 532-6659
Fax: (515) 532-3677
bruce@frinkcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waverly-Shell Rock Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waverly-Shell Rock Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Waverly-Shell Rock Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Waverly-Shell Rock Community School District and other parties to whom Waverly-Shell Rock Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Waverly-Shell Rock Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 28, 2012

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
 - Year Round Tax Planning
 - Payroll & Sales Tax Preparation
 - IRS Representation
 - Monthly/Quarterly Write-Up
 - Data Processing Services
 - Payroll Preparation
 - Financial Statement Preparation
 - Bank Loan Assistance
- Plus:**
- Over 30 years of Expertise and Experience
 - Evenings & Saturdays Available by Appointment
 - Extended Hours During Tax Season

To the Board of Education of
Waverly-Shell Rock Community School District:

Compliance

We have audited the compliance of Waverly-Shell Rock Community School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Waverly-Shell Rock Community School District's major federal programs for the year ended June 30, 2011. Waverly-Shell Rock Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Waverly-Shell Rock Community School District's management. Our responsibility is to express an opinion on Waverly-Shell Rock Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Waverly-Shell Rock Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Waverly-Shell Rock Community School District's compliance with those requirements.

In our opinion, Waverly-Shell Rock Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The management of Waverly-Shell Rock Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Waverly-Shell Rock Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Waverly-Shell Rock Community School District's internal control over compliance.

202 Central Avenue East
P.O. Box 241
Clarion, IA 50525

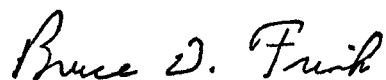
Phone: (515) 532-6659
Fax: (515) 532-3677
bruce@frinkcpa.com

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

Waverly-Shell Rock Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Waverly-Shell Rock Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Waverly-Shell Rock Community School District and other parties to whom Waverly-Shell Rock Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE D. FRINK
Certified Public Accountant

March 28, 2012

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program is as follows:
 - CFDA Number 84.410 - Education Jobs FundClustered Programs:
 - CFDA Number 10.555 - School Breakfast Program
 - CFDA Number 10.553 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Waverly-Shell Rock Community School District did not qualify as a low-risk auditee.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-11 Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has a large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

II-B-11 Auditor Drafting of the Financial Statements and Related Footnote Disclosures - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:
(continued)

II-C-11 Financial Reporting - During the audit, we identified material amounts of payables in the Capital Projects Fund which were not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation - The District should implement procedures to ensure all payables are identified and included in the District's financial statements.

Response - We will double check these in the future to avoid missing any payables.

Conclusion - Response accepted.

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.410 - Education Jobs Fund

Federal Award Year: 2011

US Department of Education

Passed through Iowa Department of Education

CFDA Number 10.555 - School Breakfast Program

CFDA Number 10.553 - National School Lunch Program

Federal Award Year: 2011

US Department of Education

Passed through Iowa Department of Education

III-A-11 Segregation of Duties - The District did not properly segregate custody, record keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response and Corrective Action Planned - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - Expenditures for the year ended June 30, 2011, exceeded the amended certified budget amount in other expenditures function. The District did not exceed the unspent authorized budget.

Recommendation - While not exceeding the total amount budgeted, the budget for the individual functions should have been amended.

Response - We will amend future budgets

Conclusion - Response accepted.

IV-B-11 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-11 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

IV-G-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-H-11 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education in a timely manner.

Recommendation - We recommend that the District take steps to ensure timely filing in future years.

Response - We will endeavor to do so.

Conclusion - Response accepted.

IV-I-11 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

IV-J-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:
(continued)

IV-L-11 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$13,195,412
Revenues/transfers in:		
Sales tax revenues	\$ 1,196,965	
Other local revenues	1,453,371	
Insurance proceeds	<u>5,231,022</u>	<u>7,881,358</u>
		21,076,770
Expenditures/transfers out:		
School infrastructure construction	15,665,625	
Transfers to other funds:		
Debt service fund	<u>752,780</u>	<u>16,418,405</u>
Ending balance		\$ <u>4,658,365</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-11 Deficit Balance - Several student activity accounts had deficit balances at June 30, 2011. The General Fund had a deficit balance of \$2,367,179 at June 30, 2011.

Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - The District is continuing to investigate alternatives to eliminate deficits in the General Fund and student activity accounts at the end of the fiscal year. Another midyear state aid cut made our task even more difficult.

Conclusion - Response accepted.